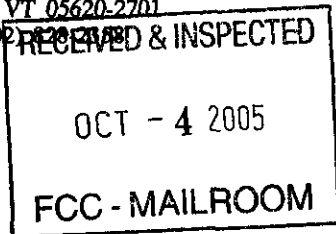


112 State Street  
Drawer 20  
Montpelier, VT 05620-2701  
Tel.: (802) 828-3351



State of Vermont  
Public Service Board

TTY/TDD (VT): 1-800-734-8390  
Fax: (802) 828-3351  
E-Mail: [clerk@psb.state.vt.us](mailto:clerk@psb.state.vt.us)  
Internet: <http://www.state.vt.us/psb>

September 26, 2005

DOCKET FILE COPY ORIGINAL

✓ Ms. Marlene H. Dortch, Secretary  
Federal Communications Commission  
Office of the Secretary  
445-12th Street, SW  
Washington, DC 20554

Ms. Irene Flannery, Vice President  
Universal Service Administrative Company  
2000 L Street, NW, Suite 600  
Washington, DC 20037

Re: CC Docket 96-45 - Annual Certification for Federal Support

Dear Secretary Dortch and Administrator Flannery:

In accordance with 47 CFR §§ 54.313 and 54.314, I certify that all federal high-cost funds flowing to the following eleven companies operating in Vermont will be used in 2006 in a manner consistent with 47 U.S.C. § 254(e) for the provision, maintenance, and upgrading of facilities and services for which support is intended.

In Vermont, there are three classifications of telecommunication carriers.

Nonrural

1. Verizon New England Inc. (formerly New England Telephone and Telegraph Company), d/b/a Verizon Vermont (SAC 145115).

Rural

2. Franklin Telephone Company (SAC 140053).
3. Ludlow Telephone Company (SAC 140058).
4. Northfield Telephone Company (SAC 140061).
5. Perkinsville Telephone Company (SAC 140062).
6. Shoreham Telephone Company, Inc. (SAC 140064).
7. Topsham Telephone Company, Inc. (SAC 140068).
8. Waitsfield-Fayston Telephone Company, Inc., d/b/a Waitsfield Telecom, d/b/a

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Champlain Valley Telecom (SAC 140069).

9. STE/NE Acquisition Corp., d/b/a Northland Telephone Company of Vermont, d/b/a Fairpoint New England (SAC 143331).
10. Vermont Telephone Company, Inc., d/b/a VTel (SAC 147332).

Competitive

11. RCC Atlantic, Inc., d/b/a Unice1 (SAC 149001).

Verizon Vermont is the only nonrural incumbent eligible telecommunications carrier in Vermont. Federal support to Verizon Vermont will be used in two ways:

1. An amount equal to support received in 1999 has been incorporated into the calculation of the company's overall rates. This base amount will continue to support lower rates for basic service in the coming year.
2. The remaining federal support will be distributed through an explicit credit for residential and business customers. Pursuant to a 1999 agreement reached between Verizon Vermont and the Vermont Department of Public Service, each Verizon Vermont residential and business customer will receive a monthly credit on his or her bill titled "Federal Universal Service High Cost Fund Credit." The credit amounts will be set to fully distribute the expected additional federal support to be received by Verizon Vermont in the coming year. As the end of the year approaches, if the projected support amount does not equal the initial estimate, a final adjustment will be made to the credit amounts. Currently the residential monthly credit is \$2.09 per line.

All federal support given to the remaining carriers (#2 through #11) will be available as revenue to the receiving companies. Pursuant to Board orders, we require these companies to periodically file information pertaining to their receipt of federal support, as well as other information that suggests how the federal funds are used. We have reviewed these reports. Based on our review, we have determined that the companies comply with federal regulations and will use federal support in a manner which is consistent with 47 U.S.C. § 254(e).

Rate Comparability

Pursuant to Section 54.316 of the rules, this Board is required annually to address residential rates in rural areas of the state served by Verizon Vermont. We must review the comparability of those rates to urban rates nationwide, and to certify whether Vermont's rates in

rural areas are reasonably comparable. States may use a safe harbor by presuming that the residential rates in rural areas served by Verizon Vermont are reasonably comparable to urban rates nationwide if they are below \$34.21. If a state does not rely on the safe harbor provision, or if the state certifies that the rates are not reasonably comparable, the state must fully explain its rate comparability analysis and provide data supporting its certification, including but not limited to residential rate data for rural areas within the state served by non-rural ILECs. If a state certifies that the rates are not reasonably comparable, it must also explain why the rates are not reasonably comparable and explain what action it intends to take to achieve rate comparability. Further details on this certification are found in the FCC's Remand Order, issued in October of 2003.<sup>1</sup>

The Vermont Public Service Board has conducted the required review. We have collected rate data for "rural areas of the state" served by Verizon Vermont, our only nonrural carrier. The Remand Order defined this as "any non-metropolitan county or county-equivalent, as identified by the Office of Management and Budget." Para. 83. This definition, however, is irrelevant because Verizon Vermont charges the same rates in all parts of Vermont. Therefore rates data collected for the state as a whole are exactly equal to the rates in our "rural areas" as defined in the rule.

The FCC rule does not explain in detail how rates are to be measured. This is an essential question because Verizon Vermont imposes Local Measured Service (LMS) charges. The Vermont Public Service Board filed comments in Docket 96-45 on the Commission's Further Notice of Proposed Rulemaking (FCC No. 03-249). Those comments stated that:

If the Commission goes forward with its new concept of rates-based support, rate data must be valid and reliable. This requires the Commission to collect additional data, beyond nominal rates, that affect the burden of paying for local exchange service as well as the value of that service. Oversimplified rate information can underestimate the real burden on consumers and can create perverse incentives for states and carriers. If the Commission does not solve the methodological problems, . . . nationwide rate data would be at best highly random and at worst misleading and arbitrary. . . . To develop valid and reliable

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<sup>1</sup> *Federal-State Joint Board on Universal Service*, Order on Remand, Further Notice of Proposed Rulemaking, and Memorandum Opinion and Order, adopted Oct. 16, 2003.

local rate data it should make five adjustments: usage-sensitive charges; local calling area size; customer option plans; local/toll balance; and business/residential balance. Vermont PSB Comments of 1/14/04 at 3-4.

Our comments showed that adjusting for usage-sensitive charges were the most important adjustment because the Commission's standard measurement technique, using 500 minutes of calling, substantially underestimates current usage. The 500 minute standard used in the Commission's *Reference Book* assumes that the average customer will use the local network 16.7 minutes per day. Our most recent Verizon-Vermont data showed that the average Vermont customer spends an average of 37 minutes per day on local calls, more than two times as much as that assumed in the Reference Book.

The Commission has not taken any action on its October, 2003 Further Notice of Proposed Rulemaking, nor on the comments this Board filed in January and February of 2004. Therefore it is difficult to determine how the Commission wishes local measured service charges to be measured. Absent guidance, we have relied upon data that we believe fairly represents the rates paid for local exchange service by Verizon Vermont customers.

The amounts paid by each customer, as of July, 2005, are set out in the table contained in Attachment A. We chose to measure Verizon's residential rates at three usage levels:

1. Minimum Use. This is the amount paid by a customer who makes no local calls during the billing month and who, knowing this in advance, has selected the lowest possible rate.
2. Typical Vermont Use. This represents the amount paid by the customer who uses the telephone for 37 minutes of local calling per day during peak calling hours. This usage equals the 2004 Verizon Vermont average, or 1,113 minutes per month. The total cost, \$46.44, is capped, and the cost does not rise further with increased local usage. Therefore this is also the price that a Verizon Vermont customer would pay if he or she wanted unlimited local usage.
3. Regional Package. This represents the bill paid by a customer who subscribes to a package service that provides unlimited local calling and unlimited directory assistance.

The data show that, even considering the current federal USF credit of \$2.09 per month, residential customers of Verizon Vermont must pay at least \$46.44 to acquire a phone and to use

that telephone for an average amount of local calling. A package is available at a slightly higher price that includes some additional features.

The Commission has said that a state with rural rates below the urban rate benchmark may still conclude that its rural rates are not reasonable comparable to urban rates nationwide. Remand Order at para. 82. The Vermont Public Service Board disagrees with the use of \$34.17 as the threshold for reasonable comparability; but that does not matter to this analysis. Whether the suggested safe harbor benchmark is used or not, the Vermont Public Service Board concludes that Verizon Vermont's typical rural residential customers pay a rate that is not reasonably comparable to that of urban areas of the country.

Under the rule, a state that certifies that its rates are not reasonably comparable must "fully explain its rate comparability analysis and provide data supporting its certification, including but not limited to residential rate data for rural areas within the state served by non-rural ILECs." As explained above, residential rates for Verizon Vermont are uniform over all of Verizon Vermont's area. They therefore are the same rates that apply in any and all subsets, including "rural areas." As explained above, the relevant data are in Attachment A, and the explanation for the data is given above.

Under the rule, when a state certifies that the rates are not reasonably comparable, it must also explain why the rates are not reasonably comparable and explain what action it intends to take to achieve rate comparability. Rates for Verizon Vermont are not reasonably comparable because Verizon Vermont receives insufficient federal support from the Commission.


As the Vermont Public Service Board has argued in many filings in Docket 96-45, Verizon Vermont rates are high because Verizon Vermont serves a rural, sparsely populated area in a challenging climate and over difficult terrain. This inevitably leads to high loop, switch and transport costs, on average, across all Verizon Vermont customers.

Vermont does not contemplate any additional internal actions within the state to obtain reasonably comparable rates. The reason, quite simply, is that such actions would be largely pointless as a way of providing relief to customers. Verizon Vermont serves approximately 85 percent of wireline customers in Vermont. As noted above, Verizon rates are uniform throughout Vermont. One often-discussed possibility is a state universal service fund. Such a fund could reduce explicit local exchange rates by providing bill subsidies; but it would have to impose an additional charge in order to finance the subsidies. The result would be that almost

exactly the same pool of customers would pay the same costs. Therefore the average rate, which is too high, would not be lowered. Moreover, even with such a fund, customer bills could not be any more uniform than they already are. Only the format of the monthly bill would change.

Vermont intends to continue to advocate for additional federal support. Over the last 12 years, the Vermont PSB has repeatedly argued that federal support to the customers of Verizon Vermont (and its predecessors) is insufficient and should be increased. We continue to believe that tens of thousands of Vermonters are disadvantaged, compared with similarly situated customers in other states, primarily because a majority of Vermont's rural customers are served by a large company, and federal support unfairly discriminates against such customers. We intend to continue to argue to the Commission, the courts and the Congress that the majority of Vermont's customers need additional federal support under 47 U.S.C. § 254 in order to achieve comparable rates.

Sincerely,



s/James Volz

Chairman, on behalf of  
Vermont Public Service Board

cc: David O'Brien (Commissioner, Vt. DPS)  
Pamela Porell (Verizon-Vermont)  
Paul Phillips, Esq. (Independents)  
John Marshall, Esq. (RCC)

# ATTACHMENT A - VERIZON RESIDENTIAL RATES IN VERMONT

	<u>Minimum Use</u>	<u>Typical Use</u> <u>(1,113 minutes)</u>	<u>Regional Package</u>
Basic Charge	\$13.15	\$13.15	\$44.95
LMS Charges	n/a	\$24.49	n/a
High Cost Credit	(\$2.09)	(\$2.09)	(\$2.09)
Subscriber Line Charge	\$6.39	\$6.39	\$6.39
Federal USF Charge	\$0.66	\$0.66	\$0.66
Vermont USF charge *	\$0.23	\$0.51	\$0.60
State Tax	\$0.32	\$1.97	\$2.29
Federal Tax	\$0.61	\$1.36	\$1.58
<b>Total Bill</b>	<b>\$19.27</b>	<b>\$46.44</b>	<b>\$54.38</b>

Assumes "Peak" minutes only @ \$.022 per minute

VT Telecommunications Tax = 4.36%

\* VT USF Surcharge = 1.15%. This fund supports E-911, Lifeline and services for the hearing impaired. It does not include any high-cost area support.

Federal Tax = 3.0%

Federal USF Surcharge = \$.66